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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Policies and Programs To Assure Universal Telephone Service in a Competitive Market Environment

RM - 8388

COMMENTS OF THE

INTERNATIONAL COMMUNICATIONS ASSOCIATION

Universal service and full connectivity among services are vital to ICA member plans to increasingly utilize telecommunications to reach customers, suppliers and employees. However, the carrier

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services purchased by ICA members can be expected to absorb most, or all of the costs of subsidies used to maintain or enhance universal service.

ICA believes that the time is ripe for a comprehensive review of "universal service" and thus we generally concur with the MFS Petition. MFS recognizes that not all of its proposals are likely to meet with full acceptance and, in fact, ICA questions some of MFS' specific points. However, "universal service" needs to be reviewed now, because ICA sees the term now being widely adopted as some form of shibboleth, that may be used, or misused, to support limits on the growth of telecommunications competition or other policies such as the potentially uneconomic adoption of new telecommunications technologies.

The appropriate definitions of "universal service" and the extent, if any, to which subsidies are required to meet universal service objectives also implicates other issues. The value of explicit transfer payment mechanisms built into the Commission's current access charge rules is a relatively small part of total interstate revenue requirements.^{1/} Nevertheless, by expeditiously revisiting the questions raised by MFS and others about universal service and subsidies, ICA believes that the Commission could lay the foundation for more effective answers to

^{1/} The Appendix to MFS' Petition identifies explicit transfer payments in the amount of some \$717-million at 1991 levels.

other access charge issues as well. If the Commission decides to open a proceeding on the issues posed by MFS, ICA believes that it should also consider several other matters:

1. Should there be a public policy definition of the word "subsidies"?

ICA believes that "subsidies" should be defined -- it should not be left to incumbent telephone carriers to define at will. MFS makes the point that the term "subsidies" has become so elastic that it can refer to any type of service pricing which the user of the term wishes to cite.^{2/} As a result, references to the term "subsidies" can mean anything from the \$800 million in explicit interstate transfer payments, to the \$20 billion figure noted in an industry document.^{3/}

The term "subsidies" is better limited to transfer payments and mechanisms over which some public body, e.g., this Commission, or a state PUC, has a measure of direct control. The term need not be expanded to embrace the supposed effects of particular practices, like price averaging or an inefficient cost structure, that occur in fully competitive markets. Conditions like these may require changes in costs and prices, but many firms face these issues, not just telephone companies. The SPR Study, above, incorporates such a broad definition of subsidies,

^{2/} See MFS Petition, pp. 14-16.

^{3/} See, SPR, Inc., "Potential Impact of Competition for Residential and Rural Service," a study for the United States Telephone Association dated July 21, 1993 ("SPR Study").

i.e., revenues received in excess of marginal costs, that virtually any firm subject to declining costs could be considered to receive "subsidies." Calculations of marginal costs, of course, will vary significantly depending upon what assumptions are employed, the time frame being examined and many other, possibly highly subjective, factors. Under this type of broad, subjective definition, any firm that sells its services or products for more than the cost of producing one additional unit at its normal volume of business would have a "subsidy" component. But these types of conditions should not be confused with overt public policy subsidies because they are not the unique result of any government activity. Therefore, ICA believes that the Commission should request comment on the appropriate scope and definition of "subsidies."

2. What are the appropriate definitions of "universal service"?

ICA believes that current usage of the term "universal service" suggests at least five different levels of meaning, not all of which have equal weight for public policies. Other parties suggest the same point. In its recent resolution concerning universal service issues, the National Association of Regulatory Utility Commissioners (NARUC) distinguished between universal affordability of some services and universal availability of others, as well as how the achievement of

"universal" service should be measured.^{4/} Given the wide use of the term for different purposes, ICA believes the Commission should request comment on at least five different "levels" of possible universal service and request that parties establish which level or levels they are addressing. These different levels (or others) might be subject to the distinction drawn in the NARUC resolution between affordability and availability or access to certain services.

- o The first level covers services needed to protect life and property, and for every day communications among people. This is the traditional notion of universal service for basic telephone services and it also embraces important, newer services such as 9-1-1 service and Telecommunications Relay services -- which have been deemed to require universal availability even before they were widely deployed.
- o The second level covers services that were once viewed as discretionary but which may have achieved sufficiently widespread deployment to enable them to be used for many types of vertical telecommunications and information services to the point that they have become "necessary" services. Touchtone or DTMF signalling has been cited as such a discretionary service that has matured to become a necessary telephone functionality. It is now inherent in telephone switch technology and is widely used for purposes other than just telephone network signalling, including a wide variety of business and financial transactions and user-interactions. If Touchtone is now part of universal service it is so by virtue of established marketplace forces.
- o The third level of universal service should be a guarantee that every subscriber will have maximum access to his or her choices among telecommunications suppliers and to more efficient provision of all "basic" services. As we discuss below, ICA believes that "universal service" should mean maximum access to competition.

^{4/} Telecommunications Reports, November 22, 1993, p.7.

- o The fourth level of potentially universal services involve new but still discretionary services; unlike an arguably necessary service, like Touchtone, the marketplace has yet to demonstrate that universal access to these services is required. The question is whether there are public policy reasons why particular discretionary services should be guaranteed with respect to access or affordability.
- o The fifth level of "universal service" involves connections to or usage of potential future services like universal broadband access, for which there has yet been no effective market test. A government "industrial policy" cannot provide a substitute for marketplace tests of real demand for such advanced services, and it may be many years -- as in the case of Touchtone service -- before the value of any particular feature of an advanced infrastructure ought to be universal. Where the applications for such services are as yet not defined, demand is uncertain and costs remain to be reckoned, the public policy question is whether and when a "universal service" test should be defined.

ICA tentatively believes that the first three of these levels are part of an appropriate public policy definition of universal service, while the latter two levels should remain subject to market forces and market tests. We particularly believe that it is no longer appropriate for the Commission to require larger users of interstate services to pay into explicit or implicit subsidy mechanisms without the quid pro quo of more competitive policies for all services that will benefit from increased competition -- including all intrastate services. There are, of course, ample precedents for the distribution of benefits derived from federal government policies being tied to the adoption of specific state policies. Tying future interstate subsidies to uniform rules favoring competition is important because competition may well be a better mechanism to ensure

efficient pricing of access charges than a protracted, perhaps ill-defined, "comprehensive proceeding" on the subject. A uniform competitive stimulus is likely to achieve more efficient pricing of interstate access, sooner, than any collection of revised pricing rules that the Commission could draft.

3. What is the appropriate role for state regulators in the future of "universal service"?

ICA believes that direct state involvement and oversight should be required if subsidies are to continue to be collected from users of interstate services. An inquiry on universal service represents a good opportunity to ensure that government oversight of the recipients of any remaining interstate subsidies is more effective than today. The MFS Petition suggests that a new institutional mechanism be created to administer explicit payments and credits. However, ICA questions whether such an administrative mechanism would be effective, particularly if making future transfer payments contingent upon maximum access to competitive telecommunications choices results in a market place capable of satisfying telecommunications demands efficiently. ICA is not convinced, for example, that an institutional mechanism based upon the National Exchange Carrier Association model is worthy of being extended to a multiple-supplier environment. There is some reason to question whether having a quasi-private body like NECA oversee the Universal Service Fund has led to the appropriate amount of control over the reporting of small and medium-sized telephone companies or to optimal costs

of administration.^{5/} Institutions like these -- NECA, the postal service, the TVA -- appear to frequently expand their business activities to compete with private firms, giving rise to the fear that the subsidy administrator may in fact be cross subsidizing itself.^{6/} ICA is explicitly not ready, at this time, to conclude that the NECA model should be extended or even that a mechanism like the current USF is the best way to preserve and extend universal service.


On the other hand, state regulators may be in a position to best fulfill this oversight role because they have the resources, the mandate, and the local knowledge needed to ensure that ratepayers -- not merely telephone carriers' bottom lines -- receive full value for other ratepayers' subsidy contributions. In other contexts, such as national uniformity in numbering plans and national unbundling of bottleneck interfaces, ICA foresees states' roles as inevitably giving way to the larger needs of the American economy in a global marketplace. Greater uniformity is needed to ensure the future development of a U.S.-wide "free trade zone" in telecommunications. Therefore, it may be appropriate to redefine the federal and state roles with respect to the oversight of transfer payments and subsidies, and to enhance the state role.

^{5/} See Joint Board Recommends Implementation of Indexed Cap on Growth of Universal Service Fund, Report No. DC-2530, November 16, 1993.

^{6/} See Public Notice DA 93-1255, October 22, 1993, "NECA Files Petition for Authorization to Perform Additional Services."

In conclusion, while ICA generally supports the Petition submitted by MFS, we believe that a Commission Notice should incorporate the issues discussed above. ICA reserves the right to comment more extensively at the appropriate opportunity.

Respectfully Submitted
INTERNATIONAL COMMUNICATIONS ASSOCIATION

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CERTIFICATE OF SERVICE

I, Laura K. Higgins, hereby certify that a true and correct copy of the foregoing "Comments of the International Communications Association" were mailed, first class, postage prepaid, or hand delivered, this 16th day of December, 1993, to the following:

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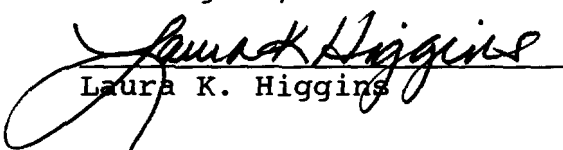
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